STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

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TO: ALL COUNTY AUDITORS, COUNTY ASSESSORS, ELECTED TOWNSHIP ASSESSORS AND TRUSTEE ASSESSORS

FROM: DEPARTMENT OF LOCAL GOVERNMENT FINANCE

RE: HOMESTEAD PROPERTY TAX CREDIT AND STANDARD DEDUCTION

DATE: FEBRUARY 2003

This memorandum will explain the changes we are implementing in the calculation of the homestead property tax credit and will advise you on the plans going forward. This memorandum will also provide instructions on how to apply the standard deduction this year.

The General Assembly established the property tax replacement credit in 1973 at the same time it enacted property tax levy controls. In 1979, during a reassessment year, the General Assembly established the homestead credit. In 1983, the General Assembly adopted changes to the property tax levy controls in order to except certain levies, such as debt issues and cumulative and capital funds, from the levy controls. At the same time, the General Assembly excluded these levies from the total amount upon which the state paid property tax replacement credits and homestead credits. There are now ten of these levies that are excluded from the calculation, and they have grown to 28.5 percent of the total property tax levy.

Although the statute was clear from 1983 on that the same formula applied to calculate the net homestead and property tax relief credits, the State has reimbursed counties for homestead credit on the *gross* amount – and thus overpaid – while it paid the property tax replacement credit according to the statutory formula.

The State will not seek any repayment of the amount of homestead credit overpaid either from taxpayers or from local governmental units. However, going forward, the Department will correct the homestead calculations for taxes payable 2003 and thereafter in order to comply with the statutory requirements.

Homestead credit format

The homestead credit is a percentage reduction in a taxpayer's net property tax liability attributable to the residential portion of the property. The homestead credit is administered in the same manner as the property tax replacement credit. The homestead credit percentage is set at 20 percent for 2003 and thereafter. See IC 6-1.1-20.9-2. *The percentage of the homestead credit varies by taxing district according to the rates the Department determines and certifies to county government.* Beginning with taxes due and payable in 2003, the homestead credit rate will extend to six decimal places, just like the property tax replacement credit rates certified for each taxing district. For example, if the net credit calculated for a particular district is 16.3434 percent, the Department will certify the rate as .163434. The Department will make all calculations, including those pertaining to county-provided homestead credits, and will provide you with the rates for each taxing district.

The Department has met with representatives of several counties regarding the change. We have also talked with representatives of the computer software companies that serve 84 counties. Nearly all counties' software systems will accommodate the change to six decimal places without any reprogramming needed in the fields. As the Department will certify homestead credit rates for each of the taxing districts, you will need to input the rates manually as you do for PTRC.

The homestead credit calculation

The Department will calculate the homestead credit as follows: First, the Department will determine the gross tax levy charged for each fund by all political subdivisions in a taxing district. Then, the Department will subtract levies exempt from property tax replacement credit and homestead credit. The exempt levies include debt service levies for 1984 and after, cumulative funds and capital project funds.

Next, the Department will allocate each fund levy between real estate and other personal property and business personal property. The Department will multiply each fund's adjusted net levy by 20 percent to determine the amount of state-paid PTRC. The Department then subtracts the state-paid PTRC from the adjusted net levy to arrive at a second adjusted net levy.

The Department will then determine the portion of the second adjusted net levy that is attributable to residential property and multiply that net levy by the homestead credit percentage to determine the amount of homestead credits paid by the State. After deducting the property tax replacement credit and homestead credit amounts, where applicable, the remaining portion is divided into the original fund levy total to determine the homestead credit rate. Because the homestead credit percentage is applied only to the portion of the second adjusted net levy that is attributable to residential property, the homestead credit certified percentage will be different from the PTRC-certified percentage.

Increased homestead credit for county option income tax purposes (COIT)

A county income tax council, in counties in which the county option income tax is in effect, may adopt an ordinance to provide an additional homestead credit in the county. The extra homestead credit may not exceed 8 percent. The county income tax council must adopt the ordinance after January 1 and before June 1 of a calendar year. The effective date of the ordinance is January 1 of the next succeeding calendar year.

The Department of Local Government Finance will certify the appropriate county option income tax percentage for counties that adopt a county option income tax percentage for homestead credit. The Department will determine the additional county option income tax homestead credit rate on or before February 15 of most years.

The calculation of the county option income tax percentage toward additional homestead credits is the same as the homestead credit.

Qualifications for the homestead credit and standard deduction

Qualifications for the homestead deduction include:

1) as of March 1, an individual uses the residence as his/her principal place of residence;
2) the residence is located in Indiana;
3) the taxpayer is either an individual or the beneficiary of a trust who uses the property as the beneficiary's principal residence;
4) the taxpayer either owns the residence or is buying it under a contract, recorded in the county recorder's office, that provides the individual is to pay property taxes on the residence; and
5) the residence consists of a single-family dwelling and the real estate, not exceeding one acre that immediately surrounds the dwelling.

Only one individual may receive a credit for a homestead in a particular year. Also, the contract does not have to be recorded before March 1; however, it does have to be executed before March 1 and recorded before the individual files an application for a homestead credit and standard deduction.

Definitions

The following definitions are helpful in determining whether or not certain property is eligible for the homestead credit and standard deduction. *See IC 6-1.1-20.9-1*

"(1) "Dwelling" means any of the following:

(A) Residential real property improvements which an individual uses as his residence, including a house or garage. [Note: The garage may be attached or detached]

(B) A mobile home that is not assessed as real property that an individual uses as the individual's residence.

(C) A manufactured home that is not assessed as real property that an individual uses as the individual's residence.

(2) "Homestead" means an individual's principal place of residence which:

(A) is located in Indiana;

(B) the individual either owns or is buying under a contract, recorded in the county recorder's office, that provides that he is to pay the property taxes on the residence; and

(C) consists of a dwelling and the real estate, not exceeding one (1) acre, that immediately surrounds that dwelling."

Property that may qualify for the homestead credit and standard deduction

A taxpayer may file for a homestead credit and standard deduction on an individual's principal place of residence including a single-family dwelling, one garage (attached or detached), improvements attached to the residence (porches, decks, patios) and up to one acre of land that immediately surrounds the dwelling. Structures that qualify as an individual's principal place of residence also include an annually assessed mobile home or manufactured home that is assessed as of January 15 pursuant to IC 6-1.1-7.

Property that does not qualify for the homestead credit and standard deduction

Property that does not qualify for the homestead credit and standard deduction includes yard improvements such as swimming pools, utility sheds, gazebos, tennis courts, etc. Income producing portions of a dwelling do not qualify, such as residential rental units, beauty shops, repair shops, or other similar structures or additions.

If a person resides on property and the property also provides an income (i.e. a duplex with half of the duplex occupied by the owner as his/her residence and the other half rented to another person), only the assessed value for the owner's residential portion of the property is eligible for the deduction. The assessed value of the land should be apportioned in the same manner as the residential improvement. For example, if the assessed valuation of the duplex was $70,000 for the residential improvements and $26,000 for one acre, or less, of land, the qualifying assessed value would be one-half of the residential improvements assessed value, or $35,000, and one half of the land assessed value, or $13,000.

Filing Requirements

A person applying for a homestead credit and standard deduction must file a certified statement with the auditor of the county in which the homestead is located. The statement includes the parcel number or key number of the real estate and the name of the city, town, or township in which the real estate, mobile or manufactured home is located.

The applicant files the statement during the 12 months before May 11 of the year prior to the first year for which the person wishes to obtain the credit for the homestead. For a mobile home or manufactured home, not assessed as real estate, the application must be filed before March 2 for each year in which the individual wishes to claim the credit. The statement applies for that first year and any succeeding year for which the credit is allowed. The certified statement contains the name of any other county and township in which the individual owns or is buying real property. If an individual owns property in another county, the county auditor shall send a duplicate copy of the application to the second county. The auditor in the second county shall note if the individual in the first county has claimed the homestead credit in the second county and return the form to the auditor in the first county.

If an individual receiving the homestead credit and standard deduction changes the use of his real property, so that part or all of that real property no longer qualifies for the homestead credit, the individual must file a certified statement with the auditor of the county, notifying the auditor of the change of use within sixty (60) days after the date of that change. An individual who changes the use of his real property and fails to file the required statement is liable for the amount of the credit he was allowed for that real property.

An individual who receives the credit for property that is jointly held with another owner in a particular year and remains eligible for the credit in the following year is not required to file a statement to reapply for the credit following the removal of the joint owner if:

(1) the individual is the sole owner of the property following the death of the individual's spouse;
(2) the individual is the sole owner of the property following the death of a joint owner who was not the individual's spouse; or
(3) the individual is awarded sole ownership of property in a divorce decree.

The auditor files the original copies of all homestead applications in alphabetical order by township. The Auditor files duplicate copies of the homestead applications in alphabetical order by the entire county. An individual cannot claim the homestead credit on two or more different statements or different properties. Before April 1 of each year, prior to the year the homestead credit is allowed, the auditor of each county certifies to the Department of Local Government Finance the amount of assessed value that qualifies for the homestead credit. Before February 1 of each year, the auditor in each county certifies to the Department of Local Government Finance the amount of homestead credits allowed in that county for that calendar year.

Determination of the assessed value qualifying for homestead

The township assessor is responsible for determining the amount of assessed value that is eligible for the homestead standard deduction. This is accomplished when the assessed value is set for each property. The township assessor is required to break the total assessed value down into residential and non-residential portions for both the land and the improvements.

The DLGF designed property record card allows for this breakdown in several areas of the card. First, the *Land Data and Computations* area of the card has lines to enter both total residential land value and total non-residential land value. Second, the *Improvement Data and Computations* area of the card has separate sections for the *Summary of Residential Improvements* and *Summary of Non-residential Improvements.* Third, the values from the land data area and the improvement data area are then summarized by residential and non-residential in the *Valuation Record* area of the card.

These numbers are then certified to the county assessor and subsequently to the county auditor when the township assessor has completed all assessments for the year. The county auditor then applies the credit equally to each installment of taxes.

In the year of a reassessment, counties must recalculate all homestead standard deductions. Officials should verify that there is an application on file for each homestead standard deduction to verify the property owner. When completing the calculation of the homestead standard deduction, the assessor should pay close attention to any action taken by the Property Tax Assessment Board of Appeals (PTABOA) on corrections or additions to insure that the form balances with the property record card.

Calculation of a property tax bill with a homestead credit

The homestead credit is calculated by taking the portion of assessed value attributable to the homestead (residential land and improvements), subtracting any deductions (i.e. standard, mortgage, Over 65, blind or disabled, veterans service connected disability, etc.) from the residential value to arrive at a net assessed value.

The following formula is then used to apply the homestead credit and standard deduction and to calculate a taxpayer's net tax liability. For 2002 pay 2003 and thereafter, the homestead credit calculation is based on net tax liability rather than gross tax liability.

Assessed value of residential real property minus deductions = net assessed value (NAV)

Step 1: Multiply the NAV of the residential portion of real estate by the gross district tax rate to arrive at a gross tax amount on residential real property.

Step 2: Multiply the gross tax amount by the certified property tax replacement credit (ptrc) rate to determine the property tax replacement credit amount.

Step 3: Subtract the ptrc amount from the gross tax amount to determine a net tax amount on residential real property.

Step 4: Multiply the **net** tax amount on residential real property amount by the certified homestead credit rate for the taxing district to determine the homestead credit amount.

Step 5: The gross tax amount minus the property tax replacement credit amount minus the homestead credit amount equals the residential portion of net taxes due.

Step 6: Start with step 1 again using the assessed value of non-residential property. Multiply the non-residential net assessed value of real property by the gross district tax rate to arrive at a gross tax amount on non-residential real property.

Step 7: Multiply the gross tax amount by the certified ptrc rate to determine the property tax replacement credit amount on non-residential real property.

Step 8. The gross tax amount minus the property tax replacement credit amount equals the non-residential portion of net taxes due.

Step 9. Combine the residential and non-residential gross tax amounts, the residential and non-residential property tax replacement credit amounts and the residential homestead credit amount.

Step 10. The gross tax amount on both residential and non-residential real property minus the property tax replacement credit amount on residential and non-residential real property minus the homestead credit amount on residential real property equals the net tax liability due for one year.

Step 11. Net tax liability due for one year divided by two (2) equals the net tax liability due each installment (May and November).

Example: A piece of property has an assessed value of $78,000. Of that amount, $70,000 is the assessed value of the residential portion (R) and $8,000 is the assessed value of the non-residential portion (NR). The taxpayer has a mortgage and standard deduction. The calculation of the tax bill follows:

AV		Standard Deduction		Mortgage Deduction	Net Value	Tax Rate		Gross Tax
R 70,000	-	35,000	-	3,000	= 32,000 x	$3.00/$100 of AV	=	$960.00
NR 8,000					= 8,000 x	$3.00/$100 of Av	=	$240.00

Mortgage Deduction = $3,000
Homestead standard deduction = $35,000
Homestead credit = .136955
Property Tax Replacement Credit (PTRC) = .182222

<u>Residential Portion of Taxes</u>
$960.00 x .182222 = $174.94 ptrc amount
$960.00 - $174.94 = $ 78 5.06 x .136955 = $107.52 hs credit amount

$960.00 - $174.94 – $107.52 = $677.54 Net tax liability due for residential portion only

<u>Non-residential Portion of Taxes</u>
$240.00 x .182222 = $ 43.74 ptrc amount
$240.00 - $43.74 = $196.26 Net tax liability due for non-residential portion

Total Taxes Due

Gross Tax		PTRC		HS Credit	Net Tax Liability
$960.00	-	$174.94	-	$107.52	= $677.54 residential portion taxes
<u>$240.00</u>	-	<u>$ 43.74</u>	-	<u>$0</u>	= $196.26 non-residential portion taxes
$1,200.00	-	$218.68	-	$107.52	= $873.80 Net tax liability due for one year

The residential "R" assessed value must be at least $70,000 to qualify for the full homestead standard deduction. Persons with an "R" value less than $70,000 receive a standard deduction of one-half of the "R" value. For example, a person with an "R" value of $60,000 would only qualify for a maximum of $30,000 standard deduction.

All deductions except solar energy or rehabilitated property are applied against the assessed value of the residential portion of the property first. The balance, if any, should be applied to the non-residential portion of the property. Solar energy and rehabilitated deductions apply against the portion of the assessed value to which the value is attributed.

Contact

Any questions or comments concerning this memorandum can be directed to the Budget Division at (317) 232-3773.